

Office of the Inspector General

Tennessee Valley Authority



Semiannual Report

October 1, 2005 ~ March 31, 2006

The Office of the Inspector General (OIG) is an independent organization charged with reporting to the Tennessee Valley Authority (TVA) Board of Directors and Congress on the overall efficiency, effectiveness, and economy of TVA programs and operations. The OIG meets this responsibility by conducting audits, inspections, and investigations.

The OIG focuses on the prevention, identification, and elimination of (1) waste, fraud, and abuse; (2) violations of laws, rules, or regulations; and (3) inefficiencies in TVA programs and operations.



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Tennessee Valley Authority Office of the Inspector General

Message From the Inspector General

This is my first report to TVA's newly constituted Board since the new Board members were sworn in on March 31, 2006. Legislation signed by President Bush in 2004 expanded the Board from three full-time members to nine part-time members, with a full-time chief executive officer to run TVA on a day-to-day basis. As has been noted by many, this is a historic change to the governance structure of TVA.

The impetus for this change was a growing sentiment over the years that TVA's governance structure had become anachronistic. For 73 years, TVA was managed by three full-time board members. United States Senate Majority Leader Bill Frist, who introduced and helped secure passage of the restructuring legislation, has commented that the change is a matter of "common sense." As the nation's largest public utility, TVA will now have a corporate structure similar to that of its competitors. The hope is that the new governance structure will help position TVA to compete on a level playing field if as expected the traditional "fence" that has historically protected TVA's market disappears.

The focus of this governance change is accountability. We also focus on accountability as well as economy and efficiency. The OIG performs audits, inspections, and investigations that are designed to assist TVA in achieving its mission of providing affordable, reliable power, being a good steward of the environment, and fostering economic development. The work highlighted in this report is indicative of the efforts we take to help TVA achieve its goals. I am pleased to report that my experience has been that TVA management works collaboratively with the OIG and conscientiously implements our recommendations. There is a demonstrable commitment to excellence at TVA.

I offer my sincere congratulations to the new board members and acting Chief Executive Officer Tom Kilgore. I want to extend my personal thanks to Directors Harris and Baxter who have demonstrated a commitment to supporting an independent OIG at TVA. I look forward to experiencing the same spirit of cooperation and partnership with the new board members.

The challenges facing TVA are great, but the honor to serve the citizens of the Tennessee Valley is even greater. On this historic occasion, the OIG renews our pledge to provide independent, objective, and competent reports as TVA moves forward into a new era.

Richard W. Moore
Inspector General
April 28, 2006

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Executive Summary

During this reporting period, we continued to support TVA by conducting objective audits, inspections, and investigations. In accordance with our mission, our reviews are designed to promote economy, effectiveness, and efficiency while detecting and preventing fraud, waste, and abuse. In total, we identified over \$6 million in recoveries, fines/penalties, potential savings, questioned costs, or funds which could be put to better use, as outlined in the chart below.

STATISTICAL HIGHLIGHTS	
October 1, 2005 ~ March 31, 2006	
Audit Reports Issued	22
Questioned Costs	\$774,000
Funds Recovered	\$1,641,000
Funds Put to Better Use	\$700,000
Funds Realized by TVA	\$740,000
Investigations Opened	80
Investigations Closed	71
Fines/Recoveries/Restitution/Savings	\$4,598,189
Criminal Actions	6
Administrative Actions (No. of Subjects)	9
Inspections Completed	14

Our 22 audits and 11 other audit-related projects during this reporting period resulted in questioned costs and the identification of areas for improvement. Highlights include (1) contract audits which identified over \$770,000 in questioned costs and \$700,000 in funds which could be put to better use, (2) information technology (IT) audits which identified needed control improvements, and (3) financial-related and operational reviews which found most internal controls were adequately designed to mitigate risks, but identified opportunities to improve control effectiveness. TVA management used information from our audits to recover or disallow about \$1.6 million and negotiated about \$740,000 in contract cost savings.



Our Inspections unit is now fully operational. That unit completed 14 projects which identified several opportunities for improved program operations. Inspection topics included the process and controls for emissions data reporting, tool control programs, and purchasing card usage.

Investigations highlights include recoveries or avoided costs which in total exceeded \$2.4 million from false claims and workers' compensation investigations alone. In addition, we continued our fraud prevention efforts, including fraud risk assessments across TVA programs, which led to strengthened internal controls in several TVA processes. We also continued our participation on interagency task forces and activities to develop more proactive investigative initiatives.

We undertook several initiatives during this reporting period to improve communications with our stakeholders. Highlights include (1) the outsourcing and adoption of a new hotline program, Empowerline; (2) issuance of an OIG newsletter, *OIG Connection*; and (3) visits by the Inspector General (IG) to TVA plant sites.

Definitions

Questioned Costs - Costs that are unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc.

Unsupported Costs - Questioned costs that are not supported by adequate documentation.

Funds Put to Better Use - Funds that could be used more efficiently by implementing recommended actions.

Disallowed Costs - Costs that management agrees should not be charged to TVA.



TVA Profile

On March 31, 2006, six new members of TVA's Board of Directors were sworn in. This marked a change after 73 years from a full-time, three-member board to a part-time nine-member board. In stepping down as chairman, Bill Baxter said it was important to elect a new board chairman and have a symbolic break from the past. Bill Sansom was selected as the new chairman. Highlights of TVA history and operations follow.

- On May 18, 1933, Congress passed the TVA Act, creating TVA as a federal corporation. TVA's threefold mission includes power production, environmental stewardship, and economic development.
- TVA, as the nation's largest public power company, operates 11 fossil plants, 29 hydroelectric dams, 3 nuclear plants, 6 combustion turbine plants, a pumped-storage facility, and 17,000 miles of transmission lines. TVA also produces energy from three renewable sources—sun, wind, and methane gas from waste. The TVA service area covers 80,000 square miles in the Southeastern United States, including almost all of Tennessee and parts of Mississippi, Kentucky, Alabama, Georgia, North Carolina, and Virginia. By providing wholesale power to 158 municipal and cooperative power distributors and directly serving 62 large industries and government installations in the Valley, TVA supplies the energy needs of 8.5 million people.
- As a regional development agency, TVA not only supplies affordable, reliable power, but also supports a thriving river system and stimulates sustainable economic development in the public interest. TVA manages the nation's fifth largest river system. TVA dams are part of a totally integrated resource management system for a 41,000-square-mile watershed. Each dam operates in relationship to the others for multiple purposes and public benefits, including flood control, maintaining navigation, providing recreational opportunities, and protecting water quality.
- TVA contributes to the Valley economy chiefly by keeping power rates competitive. This helps attract and retain industries that provide quality jobs in the region. TVA also helps communities promote sustainable economic development by providing assistance in job creation and retention and productivity improvements via capital investment, support of business incubators, specialized technical services and advice, and recruitment for new and existing industries.



Office Authority

Created by the TVA Board of Directors in 1985, the TVA OIG became statutory under the IG Act Amendments of 1988. The authority to appoint the TVA IG was transferred to the President in November 2000 by Public Law No. 106-422. The IG is responsible for conducting audits and investigations relating to TVA programs and operations while keeping the TVA Board and Congress fully and currently informed about problems and deficiencies. The TVA IG is independent of TVA management and subject only to the general supervision of the TVA Board.

OIG RESPONSIBILITIES

- Promote economy and efficiency while preventing and detecting fraud, waste, and abuse.
- Conduct and supervise audits and investigations relating to TVA programs and operations.
- Keep the TVA Board and Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to TVA programs and operations.
- Recommend corrective actions concerning problems, abuses, and deficiencies, and report on the progress made in implementing such actions.
- Assure any work performed by non-federal auditors complies with government auditing standards.
- Issue semiannual reports to TVA Board and Congress.

OIG AUTHORITIES

- Conduct any audit or investigation the IG deems necessary or desirable.
- Have access to all records and other material available to TVA.
- Issue subpoenas and administer oaths.



Office of the Inspector General

- Receive complaints and grant confidentiality.
- Have direct and prompt access to the TVA Board.
- Hire employees and contract for services as necessary.

Organization

The OIG's primary location is in the TVA headquarters office complex in Knoxville, Tennessee. To obtain broader coverage throughout the Valley, the OIG also has an Inspections unit located in Chattanooga, Tennessee, and Investigations offices at the Browns Ferry Nuclear Plant (BFN) in Alabama, in Mayfield, Kentucky, and in Chattanooga. The OIG consists of two primary components: (1) Audits and Inspections and (2) Investigations.

OIG STRATEGIC PLAN

VISION

To be a highly effective organization that promotes positive change by identifying opportunities for improvements in the performance and efficiency of TVA's programs and operations.

MISSION

Promote excellence in TVA's operations through the conduct of investigations, audits, inspections, and advisory services designed to promote economy, efficiency, and effectiveness and prevent and detect fraud, waste, and abuse.

LEADERSHIP PHILOSOPHY

The TVA OIG strives to be a high performing organization made up of dedicated individuals who are empowered, motivated, competent, and committed to producing high quality work that improves TVA and life in the Valley. Each of us has important leadership, management, team, and technical roles. We value integrity, people, open communication, expansion of knowledge and skills, creative problem solving, and collaborative decision-making.



CORE VALUES

Independence. OIG will strive to be independent in both fact and appearance in the performance of its duties.

Integrity. OIG employees will adhere to the highest ethical standards in the performance of their duties and responsibilities.

Quality. OIG will complete projects in a manner that meets applicable professional standards, as well as meeting customer expectations.

Respect for Individuals. OIG will treat everyone, including stakeholders and peers, with respect and consideration.

Results. The ultimate goal of the OIG will be to provide the maximum results possible to the agency in order to affect positive change.

Innovation. OIG employees will be encouraged to seek innovative ways to improve the impact the OIG has on the agency in a manner that does not sacrifice quality.

Teamwork. OIG employees will work cooperatively with one another and with employees in other organizations in order to achieve successful accomplishment of the OIG mission.

Initiative. OIG employees will demonstrate the highest levels of initiative to ensure discretionary time is utilized to the fullest benefit of the OIG.

Leadership. Leadership functions will be the responsibility of all employees.

Communication. OIG employees will strive to continuously improve communications by holding each other accountable for ensuring important information is shared and sensitive information is protected.



Office of the Inspector General

STRATEGIC GOALS

PERFORMANCE

Perform timely reviews that address stakeholder concerns and areas of highest risk

WORKFORCE

Cultivate and retain a highly skilled, innovative, and motivated workforce

STAKEHOLDER

Effectively communicate with stakeholders and deliver services that meet their needs

STRATEGIC OBJECTIVES

- Focus efforts on areas of highest impact and risk
- Ensure processes are efficient and effective
- Maintain highest levels of quality
- Stay abreast of emerging issues and industry trends
- Stay abreast of stakeholder concerns
- Continue to develop innovative methods for fraud detection

- Hire and retain the best
- Manage pay to stay competitive with target market
- Develop staff to achieve the highest level of capabilities
- Motivate staff to excel
- Ensure accountability in individual performance
- Promote a balanced lifestyle

- Manage stakeholder perceptions of the OIG to promote (1) high credibility, (2) independence and objectivity, and (3) responsiveness to needs
- Improve stakeholder awareness of OIG
- Ensure stakeholders are kept informed
- Ensure stakeholders have an opportunity to provide input in the annual audit planning process and each individual review, as appropriate
- Increase effectiveness of OIG hotline

AUDITS AND INSPECTIONS

Audit Operations (AO) conducts and/or supervises comprehensive financial and performance audits of TVA programs and operations. Based upon the results of such audits, AO makes recommendations to ensure that program objectives and operational functions are achieved effectively and efficiently. AO develops an annual audit plan to effectively allocate audit resources. The audit plan addresses those issues, programs, operations, and activities that hold the greatest exposure for TVA to significant risks and/or vulnerabilities.

AO consists of three departments—Contract Audits, Financial/Operational Audits, and IT Audits.



- Contract Audits has lead responsibility for contract compliance and preaward audits. In addition, this group performs reviews of TVA contracting processes and provides claims assistance and litigation support.
- Financial/Operational Audits has lead responsibility for (1) oversight of TVA's financial statement audits performed by TVA's external auditor; (2) reviews of TVA's internal controls related to financial reporting, operational efficiency, and compliance with laws and regulations; and (3) operational reviews to assess the results and economy and efficiency of TVA programs.
- IT Audits has lead responsibility for audits relating to the security of TVA's IT infrastructure, application controls, and general controls associated with TVA systems. This group also performs operational reviews of the effectiveness of IT-related functions. In addition to its audit mission, IT Audits is responsible for developing and supporting an independent OIG computer network.



The Inspections unit was formed at the beginning of fiscal year (FY) 2004. Inspections provides flexibility to conduct limited scope policy and program evaluations to promote



economy and efficiency in the management and administration of TVA programs. In accordance with the Quality Standards for Inspections, the objectives of the Inspections unit include providing a source of factual and analytical information, monitoring compliance, measuring performance, assessing the efficiency and effectiveness of operations, and/or conducting inquiries into allegations of fraud, waste, abuse, and mismanagement.



INVESTIGATIVE OPERATIONS



Investigative Operations (IO) conducts and coordinates investigative activity related to fraud, waste, and abuse in TVA programs and operations. The activities investigated include possible wrongdoing by contractors, employees, and loan recipients. IO maintains liaisons with federal and state prosecutors and reports to the Department of Justice whenever the OIG has reasonable grounds to believe there has been a violation of federal criminal law. IO works with other investigative agencies and organizations on special projects and assignments, including interagency law enforcement task forces on terrorism, the environment, and health care.

VISITS FROM OTHER OIGS

Cliff Jennings, IG for the Appalachian Regional Commission (ARC), visited our office on November 19, 2005. Mr. Jennings presented Curtis Phillips, Investigations Manager, and Craig Yates, Senior Special Agent, with Special Achievement Awards for their assistance in a criminal investigation for ARC.

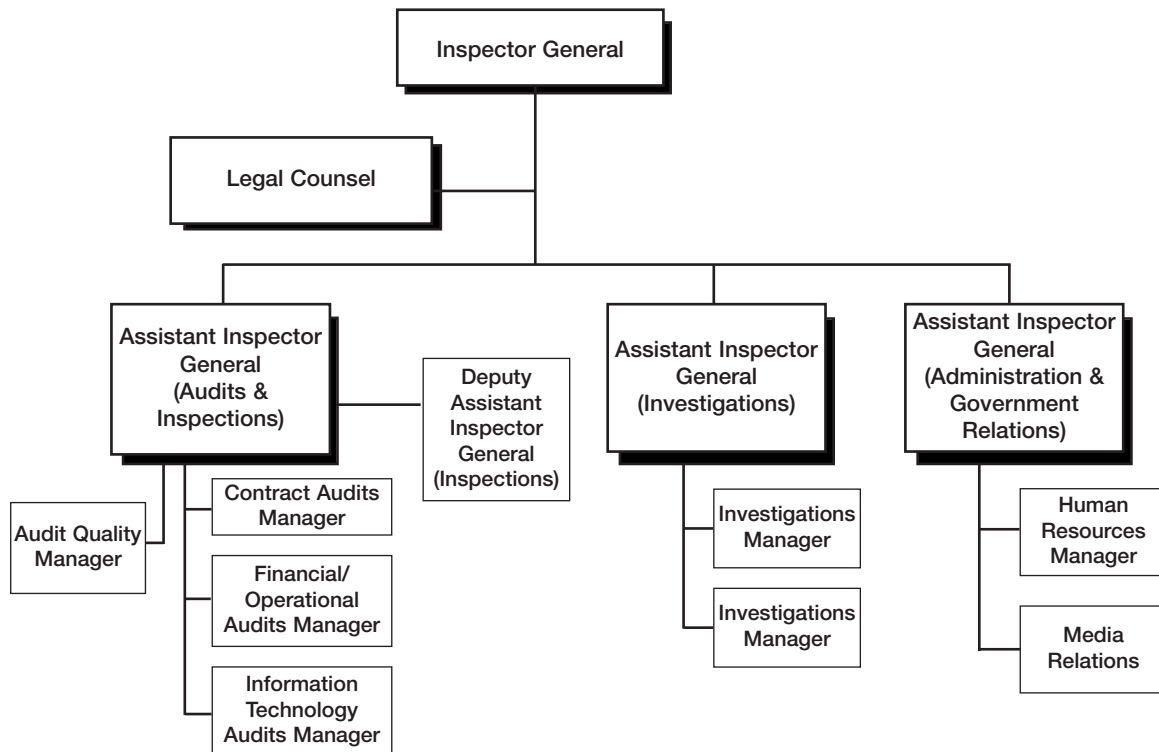
On November 30, 2005, Debra S. Ritt, Smithsonian IG; Sprightly Ryan, Assistant Inspector General (AIG) Investigations and Legal Counsel; and Stuart Metzger, AIG Audit, visited to discuss our innovative processes such as fraud risk assessments, Sarbanes-Oxley work, and Empowerline.



Pictured from left to right: Debra Ritt, Stuart Metzger, Sprightly Ryan, and TVA IG Richard Moore



Pictured from left to right: Cliff Jennings and Craig Yates



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OIG Outreach Efforts to Improve Communications

To be fully effective, the OIG needs the support and cooperation of TVA management and employees. Effective communications are a key element in establishing this relationship. While we are pleased with the current level of support and cooperation we receive, we believe we can do a better job of communicating with our stakeholders. Toward that end, we have undertaken or expanded several initiatives, including (1) issuing an OIG newsletter called *OIG Connection*, (2) revamping our hotline, now called “Empowerline,” (3) visiting plant sites, and (4) posting reports on the OIG web page.

OIG NEWSLETTER



The OIG developed and issued a quarterly OIG newsletter, the *OIG Connection*, to improve understanding of the OIG role. The first issue was sent to TVA and contractor employees during January 2006. That issue described Empowerline, OIG independence, the IG, and how employees can help the OIG do its job.



EMPOWERLINE

A review of hotlines at other private and public companies and other information showed we needed to make the OIG reporting system more convenient, and we needed to do a better job of communicating OIG's independence and purpose. We also determined that employees and contractors wanted additional assurance that they may choose to remain anonymous when they contact the OIG. To meet these needs, we decided to contract out and redesign our hotline. Accordingly, we contracted with a third party to operate the hotline, now called "Empowerline," and established a new system whereby individuals can contact Empowerline by telephone or through the web.



New and enhanced features of Empowerline include the following:

- Because not everyone can call between 8 a.m. and 5 p.m. weekdays—the usual business hours—Empowerline will be staffed 24 hours a day, seven days a week to receive concerns.
- Individuals who call Empowerline will talk with a third-party contractor to provide further assurance that no one at TVA will know the caller's identity unless they consent to disclosure.
- Individuals will be given a protected password when they contact Empowerline. They can use the password to track the resolution of their concern and, if they reported a concern anonymously, to check for any follow-up questions the OIG may have.
- Empowerline will provide detailed trending and tracking data to the OIG to identify potential problem areas based on the numbers and types of concerns.
- Empowerline's web page provides information about the types of concerns which should be reported to the OIG and contact information about where to report other TVA-related concerns.



IG VISITS PLANT SITES

The IG personally kicked off an initiative to open a dialogue with TVA employees when he attended all-hands meetings during February and March at the Kingston, John



IG Richard Moore (left), Laborer James Perkins of Johnsonville (center), and AIG for Investigations Charles Kandt (right)

Sevier, and Johnsonville Fossil Plants. The plant managers were fully supportive of these visits, and the IG plans to visit as many plant sites as he can over the coming year.

The OIG is reaching out to plant personnel because the OIG cannot be truly effective unless employees feel free to express concerns to the OIG. The OIG relies heavily on employees who are on the front lines to identify areas where a more in-depth review, such as an audit or

investigation, might help TVA. The all-hands meetings provide an opportunity to discuss the OIG's role and responsibilities and encourage employees to call Empowerline. These visits by the IG help ensure employees understand that Empowerline provides a vehicle for them to report concerns anonymously or in confidence, and that the OIG values their input. It also provides an opportunity to remind plant employees that specific special agents—who generally attend the all-hands meetings—have been designated for each TVA facility.



Plant Manager Earl Deskins (right) gave Richard Moore (left), OIG contractor Jack Brennan (center left), and Charles Kandt (center right) a tour of Kingston



Left to right: Assistant Unit Operator Bobby McFalls, Unit Operator Mike Hoag, Richard Moore, Assistant Unit Operator Jeff McGahee, Unit Operator John Antrican, and Unit Operator Phil Davis at John Sevier



POSTING AUDIT AND INSPECTION REPORTS

We have begun posting some final audit and inspection reports on the OIG web page, either in summary form or in their entirety (after redacting information which would be withheld under the Freedom of Information Act). This practice is consistent with the practice of other presidentially appointed IGs and guidance suggested by the President's Council on Integrity and Efficiency (PCIE). We will not, however, be posting even a summary of certain audits, such as security reviews and preaward audits, because of their special sensitivity.



Audits

Summary of Representative Audits

Audits are initiated from (1) the OIG annual workplan, (2) additional issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, and (4) concerns raised by TVA management or other stakeholders. During this reporting period, we completed 22 audits which identified over \$770,000 in questioned costs and \$700,000 in funds which could be put to better use. We also identified numerous opportunities for TVA to improve program operations. Our audits included (1) pre- and postaward contract audits, (2) financial-related audits, (3) IT audits, and (4) operational audits. We also completed 11 other audit-related projects.

PREAWARD CONTRACT AUDITS

To support TVA management in negotiating procurement actions, we completed two preaward audits that identified \$700,000 in potential savings opportunities. Highlights of the preaward audits follow.

- We reviewed a contractor's indirect costs to determine if the cost recovery rates included in the contract with TVA for providing engineering, material supply, and installation support for automating TVA's hydro system were fairly stated. We determined a direct labor markup included in the contract was overstated based on the company's historical costs and estimated TVA would save about \$99,800 by negotiating a markup based on the historical costs. TVA management used the findings from our audit to negotiate reductions in the contract's indirect cost recovery rates.
- We reviewed a contractor's proposal to provide flue gas desulfurization process equipment and related engineering services for scrubber efficiency improvement solutions for TVA's fossil plants under a five-year contract with estimated expenditures of \$50 million. We determined the contractor's cost proposal was fairly stated in comparison to recent actual costs. However, the contractor's salary burdens included cost allowances for bid and proposal expenses that we estimated



would cost TVA \$600,000 over the five-year contract period. We suggested TVA negotiate reduced salary burdens to eliminate the bid and proposal expenses and instead pay for these expenses directly. The potential savings to TVA would depend on the amount of bid and proposal expenses billed directly to TVA. TVA Procurement subsequently informed us the bid and proposal expenses had been eliminated as indirect costs and the salary burdens had been reduced accordingly.

CONTRACT COMPLIANCE AUDITS

During this reporting period, we completed five contract compliance audits that identified \$774,247 in ineligible and unsupported costs. Highlights of the audits follow.

- We determined a contractor that provided selective catalytic reduction catalyst (1) understated a material cost adjustment due TVA by \$5,933 and (2) could not provide verifiable documentation of the material weights used in its catalyst production. TVA management subsequently recovered the overbilled cost.
- We reviewed adjustments to provisional billings of indirect costs submitted by a contractor providing nuclear security services and determined the contractor's adjustments for calendar years 2002 through 2004 were overstated \$80,615 due to errors in its reconciliation of previously billed costs. We also determined the contractor owed TVA additional credits totaling \$28,829. The contractor agreed with our findings and submitted adjusted invoices that included credit for the questioned amounts.
- We determined 23 percent of the \$18.4 million in payments TVA made to a contractor that provided chemicals and water treatment services during FY 2004 were authorized without proper receipt. Although the prices billed generally complied with the contract, we noted \$6,266 of overbillings and estimated that TVA paid \$322,579 for unsupported prices. TVA management agreed to implement more effective controls over receipt, recovered the \$6,266 overbilling, and plans to obtain appropriate documentation for the unsupported prices.



Audits

- We reviewed \$5.1 million of costs billed to TVA by a contractor for welding services performed at Browns Ferry Nuclear Plant (BFN) Unit 1 by one of its subcontractors. We determined TVA had been billed \$295,067 for (1) per diem payments that exceeded contract per diem limits; (2) ineligible and unsupported per diem, relocation, and equipment costs; and (3) ineligible fees. TVA management agreed with our audit findings and plans to take action to recover the overbilled amounts from the contractor.
- We determined TVA had been overbilled \$34,958 out of \$64.5 million of costs billed to TVA by a contractor for engineering services performed at BFN Unit 1 by one of its subcontractors. The overbilling included (1) \$20,243 of per diem payments that had not been approved by TVA; (2) \$8,019 of relocation payments made to an employee who had already been paid to relocate to BFN by another contractor; (3) \$3,623 of travel expenses that were either ineligible, over contractual limits, or should have been included in overhead; and (4) \$3,073 of fees that should have been credited back to TVA. TVA management subsequently recovered \$16,235 of the questioned costs.

OTHER CONTRACT-RELATED PROJECTS

We issued four notifications to TVA management regarding issues we found during limited reviews of certain contracts. The issues included (1) contractor invoicing of ineligible administrative charges, (2) duplicate cost billings, (3) unclear pricing terms in a contract, and (4) contractor pricing that did not comply with contractual provisions.

We also provided advice to TVA management regarding (1) evaluations of cost proposals received for a planned maintenance and modifications contract and (2) audit clauses for a benefits contract.



FINANCIAL-RELATED AUDITS

During this semiannual period, we completed seven financial-related audits, two attestation engagements, and interim testing of controls for twelve financial reporting processes to assist with TVA's initiative to comply with Section 404 of the Sarbanes-Oxley Act (SOX). Highlights of the audits follow.

- The external auditor, PricewaterhouseCoopers LLP (PwC), issued an unqualified opinion on TVA's FY 2004 and FY 2005 financial statements on November 17, 2005. On that date, PwC also issued a combined report on its consideration of TVA's internal control over financial reporting and compliance with certain provisions of laws and regulations for the year which ended September 30, 2005. In meeting our statutory responsibility for the financial statement audit, the OIG (1) assessed the external auditor's methodology, evidence, and documentation; (2) performed supplemental tests of accounting records and compared the results to those of the external auditor; and (3) examined the independence and qualifications of the external auditor. We determined the financial statement audit was performed in accordance with Government Auditing Standards in all material respects.
- We found no instances where TVA's external auditor's review of TVA interim financial information for the first quarter of FY 2006 did not comply with Government Auditing Standards in all material respects, including required communications to appropriate parties.
- We assessed controls over time reporting and determined process control documentation was inadequate in establishing responsibility for ensuring accurate time reporting, including monitoring of time reported. Management agreed with our findings and initiated corrective action to improve guidance.
- We performed a follow-up review of TVA's hospitality program and determined TVA's hospitality spending had decreased by 70 percent since our 2004 review. We also noted: (1) not all purchasers of hospitality had completed the hospitality training module; (2) some purchases were not charged to the correct cost classification; (3) TVA's Hospitality Policy did not require use of form TVA 17901, Pre-approval of



Audits

TVA Hospitality Expenditure; (4) TVA's Hospitality Policy did not address use of a TVA purchasing card for purchasing hospitality; and (5) TVA's pre-approval form did not require assessment of reputation risk. Management generally agreed with our findings and is taking appropriate corrective action.

- We assessed controls over TVA's reporting of its asset retirement obligation (ARO) to ensure related balances included in the financial statements as of June 30, 2005, were accurate and complete. We determined controls over the ARO reporting process were operating effectively to ensure balances were accurately reported in all material respects.
- In support of TVA initiatives to comply with SOX requirements in FY 2007, we issued a summary report on our results of controls documentation reviews for 15 key business processes determined to be in scope for SOX compliance. We identified no deficiencies in 7 of the 15 processes; however, documentation and control deficiencies were identified in the remaining 8 processes. We provided the Controller recommendations for improvement and obtained information on actions planned by management to remediate the deficiencies. In addition, we completed testing of controls for 12 of the more than 80 processes determined to be in scope for SOX compliance and issued interim reports to management. Management has developed a plan for completing corrective action in this fiscal year. Testing of the remaining processes will continue during FY 2006 to assist TVA in preparing for required SOX compliance in FY 2007.
- We assessed controls over TVA's intragovernmental activity and balances for the third quarter of FY 2005. We determined (1) intragovernmental balance information as reported generally agreed with the third-quarter financial statements; (2) there were some inaccuracies in the data submitted, indicating the need for better controls to ensure data reported is accurate and representative of balances in TVA's financial statements; and (3) the Controller organization made reasonable efforts to explain and resolve the material differences in the balances reported by TVA and those reported by its federal trading partners. We made recommendations to improve controls over the accuracy of data, and management has taken corrective action.



- We performed procedures agreed-upon with TVA management over the FY 2005 performance measures and found: (1) changes to the FY 2005 goals were properly approved with one exception which did not impact the payouts; (2) actual year to date inputs for each indicator agreed with the respective reason for improvement sheet with one exception which did not impact the payouts; (3) actual inputs for the eight TVA-wide metrics agreed with the underlying support provided by the strategic business units; and (4) the payout percentages were mathematically accurate after noted exceptions were corrected.
- We completed the IG agreed-upon procedures over TVA's intragovernmental activity and balances to assist the United States Treasury in preparing and the United States Government Accountability Office in auditing the FY 2005 United States government-wide consolidated financial statements.

IT AUDITS

During this reporting period, we completed six audits in the IT environment. These reviews pertained to (1) internal controls for five financially significant applications and (2) a review of IT security controls in TVA procurement contracts. We found improvements were needed to address weaknesses in the following areas:



- Processing controls designed to ensure accurate and efficient processing of transactions. Weaknesses related to timely release of transactions for processing; audit log monitoring; documentation of data flow, controls, and processes; and manual processing that could be automated.
- Logical security controls designed to prevent unauthorized access to system programs and data. Various weaknesses related to direct data changes, access management, remote access, security configurations, and security requirements documentation.



Audits

- General controls designed to ensure ongoing operations. Weaknesses related to change management, backup and contingency planning, and disaster recovery testing.
- Controls ensuring IT security issues were uniformly identified and addressed for all contracts. Weaknesses related to (1) identification, documentation, and approval of responsibilities for security issues and access to systems and data by contractors; and (2) monitoring and enforcement of terms and conditions affecting IT security.

Management generally agreed with our findings and either has implemented or is in the process of implementing corrective actions.



Summary of Representative Inspections

Our Inspections unit, based in Chattanooga, is now fully operational. Inspections' objective is to provide management with independent and objective analysis to assist in improving the efficiency and effectiveness of TVA operations, and to be the recognized source within TVA for operational business consulting services and special project reviews. Inspections provides a source of (1) factual and analytical information, (2) testing for compliance, (3) measuring performance, and (4) conducting inquiries into possible areas of fraud, waste, abuse, and mismanagement. Inspections helps TVA achieve objectives by systematically evaluating and improving risk management, control, governance, and the implementation of best practices. Inspections staff work with stakeholders to develop suggestions/recommendations that are practicable and cost effective.



Pictured from left to right (back): Jay Piercy, Mike Driver, Greg Jaynes, Ashley Haga, Mike Patty, and Rick Underwood; (front) Heather Kulisek, Stephanie O'Daniel, Deanna Garrison, and Brenda Adams

The Inspection Plan addresses key strategic and risk areas, including (1) BFN Unit 1 Restart Project Monitoring, (2) Employee Benefits and Workforce Planning, (3) Transmission Costs and Reliability, (4) Continuity of Operations, and (5) Power Pricing. Inspections' goals include:

- An average cycle time of 90 days or less for all projects; and
- Sixty percent of completed projects address key operational risk areas.

Inspections is headed by a Deputy Assistant Inspector General and will have 15 employees. Inspections employees have degrees in varying fields such as business administration, finance, accounting, economics, and industrial and systems engineering. Their certifications include CPA (certified public accountant), CFE (certified



Inspections

fraud examiner), CISA (certified information system auditor), CGFM (certified government financial manager), and MHP (managed healthcare professional).

During this reporting period, we completed 14 inspections which identified numerous opportunities to improve TVA program operations. Highlights of our inspections follow.

CLEAN AIR EMISSIONS MONITORING



We reviewed the process and controls for emissions data reporting. Our objective was to ensure that controls are prescribed and functioning to ensure accurate Continuous Emissions Monitoring System (CEMS) data reporting. In summary, we found controls are prescribed and functioning which ensure the accuracy of CEMS data reporting. Specifically, we found the data is being approved and certified at the plant

and the TVA designated representative level prior to submission to the Environmental Protection Agency. In addition to controls prescribed by the Fossil Power Group's process, TVA's Environmental Compliance and Technology Applications organization performed environmental program reviews which also evaluated compliance with controls and quality procedures related to CEMS reporting.

TVA NUCLEAR (TVAN) TOOLS CONTROL PROGRAM

The OIG was requested by the Vice President, BFN Unit 1 Restart, to review tool management associated with the restart project. TVA is providing all necessary tools for the restart. Based on the results of this review, we also assessed the tool management program at TVA's Sequoyah and Watts Bar Nuclear Plants.

We found a significant lack of tool accountability/tracking resulting from (1) noncompliance with the relevant TVAN Business Practice, prescribed processes, and key control activities; and (2) other process/control weaknesses. Management agreed with our findings and plans to initiate corrective actions.



TVA FOSSIL'S HEAVY EQUIPMENT DIVISION (HED) TOOLS CONTROL PROGRAM

The fossil tool program began in 1991 for the purpose of providing tools for the Fossil Power Group and its contractors. Fossil Power's HED assumed responsibility for the fossil tool program in 1995.

We found that HED appears to be following the policies and procedures set forth in their policy for the distribution and reclamation of tools at the fossil plant sites. HED procedures and key control activities ensure that HED leased tools are adequately tracked and accounted for. However, (1) the computer inventory tracking system does not accurately reflect HED tools available for lease and (2) documentation related to the disposal of tools and inventory adjustments could be improved. Management agreed with our findings and has taken or plans to take appropriate corrective actions.

REVIEW OF LOW-LEVEL RADIOACTIVE WASTE LIABILITY (LLRW) ESTIMATES

We performed an inspection to assess the reasonableness of estimates made for disposal of LLRW. We found the (1) FY 2005 LLRW estimate appeared reasonable when unforeseen incurred LLRW disposal costs were taken into account; and (2) processes, methodology, and assumptions used to develop the FY 2006 disposal estimates were consistent with those used in developing the FY 2005 estimates. In addition, we verified that the LLRW expense and liability accounts were adjusted quarterly in accordance with the relevant TVAN Business Practice.

However, we noted (1) the process and methodology for developing LLRW estimates was not documented, (2) a lack of cross-training potentially existed, and (3) no recent physical inventory was done at the plants. Management agreed with our findings and has taken or plans to take appropriate corrective actions.



Inspections

REVIEW OF TVA PURCHASING CARD USAGE



TVA began its Visa Purchasing Card Program for small dollar purchases, up to and including \$5,000, in 1994. The OIG has conducted several reviews of the Purchasing Card Program since its inception. Our current review covered the period June 1, 2002, through June 30, 2005. Purchases during this period were made

by 1,826 cardholders and totaled about \$250.3 million, including \$80.2 million during calendar year 2004.

In summary, we found Procurement has made program changes to address control weaknesses identified in our previous report; however, we still noted travel and travel-related expenses charged to the purchasing cards contrary to TVA policy. We also found (1) weaknesses in supervisory review and approval of purchasing card statements, (2) disallowed and questionable purchasing card transactions, (3) purchasing cards issued without required documentation, and (4) TVA policies and on-line training modules do not clearly and consistently define acceptable purchasing card use for hospitality expenses.

Procurement stated that subsequent to our review period, actions were taken to address weaknesses in supervisory review and approval of purchasing card statements. Procurement further advised that additional actions would be taken in response to most of our recommendations. We suggested Procurement implement additional monitoring controls as appropriate in those areas where Procurement elected not to adopt our recommendations.

REVIEW OF TVA USAGE OF EBAY TO DISPOSE OF SURPLUS ASSETS

We performed a limited scope review to assess the processes and controls over the sale of surplus TVA assets on eBay, including how eBay is chosen for the sales mechanism, reserves are determined, and payments are received and accounted for. Our review of the TVA Investment Recovery (IR) procedures for eBay sales identified several opportunities for improvement. Specifically, the procedures (1) did not



adequately address the minimum acceptable price and payment processes/controls and (2) provided TVA organizations, which may not have IR's expertise, the ability to sell TVA assets on eBay. Management agreed with our findings and has taken or plans to take appropriate corrective actions.

TVA HELICOPTER USAGE

TVA's helicopter fleet consists of seven helicopters which TVA owns and self-insures. Those helicopters are used for a variety of missions, including:

- Inspecting TVA's 17,000 circuit miles of transmission lines in a seven-state region;
- Aerial photography, laser mapping, and river and environmental surveys;
- Construction support;
- Clean air testing;
- Right-of-way inspections;
- Transportation of TVA executives;
- Economic development activities, such as aerial tours of industrial megasites; and
- Deployment for emergency contingencies such as floods, tornadoes, and ice storms.

We found the TVA helicopter fleet appeared to be used for valid business purposes. However, there were no documented guidelines identifying proper uses of the helicopter fleet and approval levels needed to obtain flight services. Additionally, there has been no cost-benefit study of helicopter fleet usage to ensure it is being used effectively. Management agreed with our findings and has taken or plans to take appropriate corrective actions.



Inspections

TVA'S CONTINUITY OF OPERATIONS PLAN (COOP)

Federal Preparedness Circular (FPC) 65, issued in July 1999 and revised in June 2004, outlines specific COOP requirements. TVA, as a federal agency, falls under the provisions of FPC 65. We found that while TVA's June 2002 proposed COOP plan (1) appears to address major COOP requirements as stated in FPC 65 and (2) provides guidance for preparation of site, activity, or business unit specific COOP plans, the plan lacks proper implementation and support. Management agreed with our findings and has taken or plans to take appropriate corrective actions.



Summary of Representative Investigations

During the past six months, we closed 71 investigations based, in part, on allegations and concerns received from ratepayers, TVA management and employees, and OIG auditors. Our investigations, including task force projects and joint investigations with other agencies, resulted in (1) over \$4.5 million in recoveries, projected savings, and fines/penalties; (2) three subjects indicted; and (3) three subjects convicted.

Our investigative activities are designed to prevent and detect fraud, waste, and abuse. While our investigations in the past have largely been reactive, we are implementing programs to become more proactive. Our proactive efforts include (1) contracting out and publicizing the OIG hotline, now called “Empowerline”; (2) placing an additional emphasis on testing for fraud during audits and having auditors make referrals to Investigations; (3) devoting one employee to full-time data mining to look for anomalies and fraud indicators in TVA data sets; (4) working with TVA management to conduct fraud risk assessments; and (5) assigning OIG special agents to be responsible for specific TVA plant sites and develop relationships with the people there. In this connection, we are working with TVA management to ensure that allegations which do not rise to the level of warranting an OIG investigation are appropriately considered and acted upon.

We also recognize the importance of sharing investigative resources and information with other federal agencies and task forces in order to focus enhanced law enforcement resources by applying the most effective criminal and civil statutes against individuals and companies who are breaking the law. During this period, we continued to provide investigative resources to the Environmental Crimes Joint Task Force and a Health Care Task Force, sponsored by the United States Attorney for the Eastern District of Tennessee, and the Joint Terrorism Task Force (JTTF), led by the Federal Bureau of Investigation (FBI), Knoxville Field Division.

Illustrative investigations follow.



Investigations

FALSE CLAIMS

Our investigations of alleged false claims led to recovery or avoided costs for TVA of over \$1 million.

- As part of a joint investigation with several government agencies, we determined that a Texas company, which was a subcontractor for TVA, submitted false claims for payment for services not rendered. Although the company denied any wrongdoing, it reached a settlement agreement with the agencies in a civil False Claims Act case. The company agreed to pay \$2.7 million to the United States. Of this amount, TVA received \$185,901 as its share of the settlement.
- We previously reported joint audit/investigation findings that the barge draft method used to weigh coal has consistently led to TVA being overbilled by roughly 15 tons per barge. The barge company previously agreed to a negotiated settlement of \$295,000 for transportation costs overbilled for coal not delivered. During this reporting period, the coal company agreed to a negotiated settlement for coal not shipped resulting in a cost avoidance of \$824,904.

WORKERS' COMPENSATION FRAUD

Our workers' compensation cases during this reporting period included an indictment, a guilty plea, and a sentencing. The long-term savings to TVA from these cases are projected to exceed \$1.4 million.

- A former TVAN employee was indicted by a federal grand jury on one count of filing a false statement to obtain benefits under the Federal Employees' Compensation Act (FECA). The indictment charged the employee falsely reported to the Office of Workers' Compensation Programs (OWCP) during April 2003 that he was not employed or self-employed.
- A former TVAN employee pled guilty to four felony counts of making false statements to obtain workers' compensation benefits under FECA. The former employee admitted filing false annual reports with





the Department of Labor OWCP, for the period February 2001 to February 2004, stating he was not employed when in fact he had other employment. Based on the false statements, the former employee received \$98,000 in workers' compensation benefits. With the guilty plea, the former employee forfeited his right to continuing benefits under FECA, which will reduce TVA's future workers' compensation costs by almost \$800,000.

- A former Fossil Power employee recently convicted on four counts of filing false statements to obtain FECA benefits was sentenced by a federal district judge to 60 months' probation, fined \$5,000, and ordered to make restitution of \$44,101. We have requested the OWCP declare a forfeiture on the \$138,120 in benefits paid during the period covered by the false statements. As noted in a prior report, we estimated the long-term savings based on the former employee not receiving future benefits will be over \$600,000.

FALSIFICATION OF RECORDS

We substantiated three records falsification cases, two involving nuclear records and one involving travel records, as follows.

- A TVAN contractor employee attempted to mislead a quality inspector in order to complete an assigned task. The evidence showed the contractor employee attempted to mislead the inspector into believing a piece of pipe support material had been replaced, when in fact the material had not been replaced. The contractor employee directed the part number be ground off the pipe support, had the tag removed, provided the inspector with documentation indicating the material had been replaced (when it had not), and incorrectly told the inspector that piece of material had the correct paperwork. The evidence further showed the contractor employee was supervised by his brother in violation of the contractor's policy on nepotism. The contractor employee was terminated, and the contractor took action to ensure its nepotism policy was followed.



Investigations

- A TVAN employee falsified a radiological survey—a quality assurance document. The employee also made inconsistent and inaccurate statements regarding that survey to the OIG and TVA management. No one was exposed to radiation as a result of the falsified survey, and TVA management terminated the employee.
- A Fossil Power employee falsified time reports by claiming overtime he had not worked. The employee was suspended for two weeks, demoted from a supervisory position, and required to reimburse TVA for the pay received based on the false time reports.

CONFLICT OF INTEREST

A Fossil Power employee entered a guilty plea to a one-count misdemeanor conflict-of-interest violation in United States District Court and was fined. The employee had accepted a part-time position with a TVA contractor while at the same time serving as the technical contract manager (TCM) for the contract. TVA management suspended the employee for two weeks and removed him from TCM duties.

CREDIT CARD MISUSE

We completed two investigations involving misuse of a TVA credit card.

- A contract employee and members of her family used several TVA Wright Express credit cards for personal purchases. The contract employee pled guilty to one count of theft in Alabama state court. She was sentenced to a one-year suspended sentence and two years of unsupervised probation, and was ordered to make restitution to TVA in the amount of \$7,572.
- A Fossil Power employee misused a TVA travel card by charging airline tickets for family members and not reimbursing TVA. The employee explained he gave the wrong credit card number to his daughter to pay for airline tickets. The employee reimbursed TVA the cost of the tickets and surrendered the travel card.





MISUSE OF COMPUTER RESOURCES

We received several allegations involving misuse of TVA computer resources.

- In one case, our investigation showed a TVA employee violated TVA policy by (1) using his personal laptop computer with a wireless access card to gain unauthorized access to the TVA network, (2) installing an unauthorized file sharing program on his TVA desktop computer, and (3) using a file sharing program to download or share music on the Internet through the TVA network. The employee resigned.
- We also investigated or referred to management several cases involving the storing/transmitting of sexually explicit and/or other inappropriate non-work related materials on TVA computers by TVA and/or contractor employees. Management took corrective action in each case, including reminding employees of relevant policies, counseling employees, and issuing written warnings.





Investigations

FRAUD RISK ASSESSMENTS (FRA)

We work with TVA management to conduct FRAs of major processes throughout TVA. An FRA is a process for management and business process owners to identify and



Pictured from left to right: David Winstead, Nancy Holloway, Beth Thomas, and Curtis Phillips. These OIG employees form the core OIG FRA team.

analyze fraud risk factors that may be common to general business practices and also specific to the organization and its operations. The OIG serves as a facilitator and consultant during the FRA process. This process is intended to identify (1) types of frauds which can occur, (2) the likelihood and significance of fraud occurring, (3) the controls in place to prevent fraud, and (4) actions

needed to improve fraud prevention controls. As part of this process, we also provide fraud awareness training.

Our outreach efforts have been successful in achieving full cooperation and support from TVA as demonstrated by management requests for fraud risk assessments and the candor shown by employees during the assessment process. These efforts also have promoted working relationships between OIG and TVA employees. The following FRAs were completed during this reporting period. In each case, fraud risk areas, possible fraud schemes, and potential remediation areas were identified, and management is taking or plans to take appropriate corrective action.

- Convenience check process—the potential remediation included (1) further separation of duties, (2) identity verification, (3) further controls over blank checks, (4) training, and (5) data mining.
- Accounts payable—the potential remediation included (1) additional training for technical contract managers and Accounts Payable employees and (2) data mining.



- Inventory process, including the processes to receive and inspect material, record movement, and manage site material and the Supplier Managed Inventory program—the potential remediation included (1) improving cycle count procedures, (2) ensuring the Project Review Committee approves all major advance purchases, and (3) ensuring the notification process includes Procurement when operating assets become obsolete so that associated inventory items can be properly written off.
- Time reporting process—the identified opportunities to further mitigate risks included (1) providing training on responsibilities and accountabilities for time reporting, (2) identifying cost-effective system edits, (3) upgrading the system to notify approving officials of changes to previously approved time or schedule, and (4) upgrading the system to require audit logs of all software changes or modifications.
- TVA contract—one additional opportunity to further mitigate risk was identified, i.e., to require the contractor’s employees to provide periodic certifications to support temporary living allowance claims.

SPECIAL PROJECT

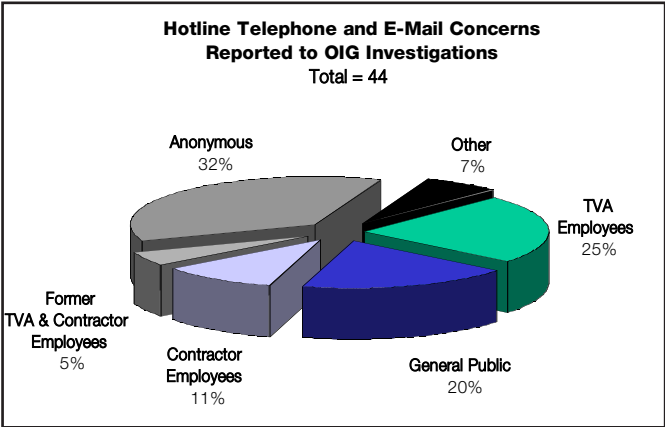
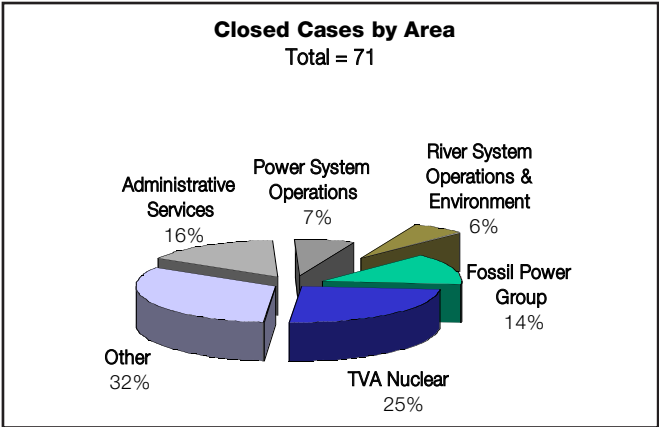
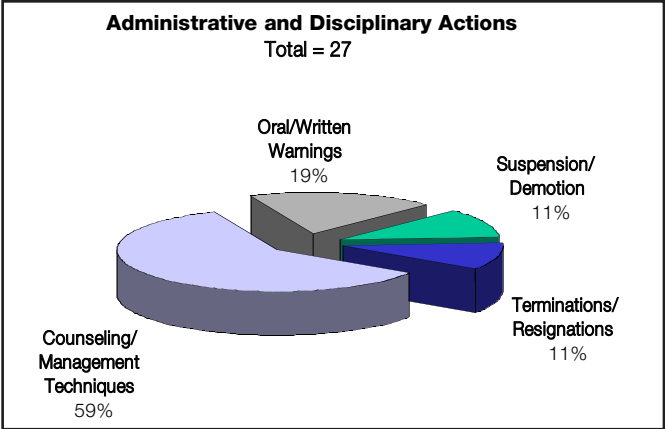
We reviewed the Valley Advantage Program, which was created in 2003 to offer incentives for businesses to relocate or expand existing facilities within the Valley to create new jobs, increase power sales, stimulate capital investment, and provide wages higher than prevailing wages. The control weaknesses identified during our review included (1) inadequate documentation was maintained to support funding decisions, (2) the loan approval process was not consistent with program guidelines, (3) reporting requirements were inconsistent, (4) there was no process to verify project goals were met, (5) project qualification criteria may not have been clear, (6) there was no guidance on the level required for the company’s signature, and (7) past commitment letters were open-ended. Management took appropriate corrective action in response to our findings.



TASK FORCES

We recognize the importance of sharing investigative resources and information with other federal agencies and task forces in order to focus enhanced law enforcement resources by applying the most effective criminal and civil statutes against individuals and companies who are breaking the law. During this period, we continued to provide investigative resources to three task forces.

- We continued our participation on the JTTF, led by the FBI's Knoxville Field Division. Because of TVA's critical, energy-related infrastructure, we have devoted one special agent full-time to the task force and have committed audit support on an as-needed basis. As previously stated by FBI Director Robert S. Mueller, "the JTTFs have played a central role in virtually every terrorism investigation, prevention, or interdiction within the United States. . . . JTTFs team up FBI agents with police officers, members of the Intelligence Community, Homeland Security, and other federal partners to coordinate counterterrorism investigations and share information. They are also a critical conduit between the FBI and the officer on the beat."
- We continued our participation on a Health Care Fraud Task Force sponsored by the United States Attorney for the Eastern District of Tennessee. TVA operates a self-insured health benefits plan, and claims of health care fraud involving TVA and others are investigated by the Task Force. The Task Force includes representatives from the investigative arms of federal, state, and local agencies, and Blue Cross/Blue Shield of Tennessee's Special Investigations Unit.
- The Environmental Crimes Joint Task Force, which also is sponsored by the United States Attorney for the Eastern District of Tennessee, is comprised of members from numerous federal and state agencies. Our participation on this Task Force helps support the TVA goal of supporting a thriving river system.





Legislation and Regulations



Under the IG Act of 1978, one of the IG's responsibilities is to review legislation and regulations which may have an impact on the economy and efficiency in the administration of TVA programs and operations. Accordingly, we follow legislative areas of interest pertaining to the IG community and TVA. The TVA IG, Richard W. Moore, serves on the Legislation Committee for the PCIE, and we worked with the PCIE to provide comments on legislation involving the IG community. Legislation we reviewed during this reporting period included proposed amendments to the IG Act, the TVA Act, and the Atomic Energy Act, and proposed new whistleblower protection legislation.

APPENDICES



Appendix 1

Index of Reporting Requirements Under the Inspector General Act

REPORTING REQUIREMENT	PAGE
Section 4(a)(2) Review of Legislation and Regulations	37
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	15-34
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	15-34
Section 5(a)(3) Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 5
Section 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused	None
Section 5(a)(6) Listing of Audit Reports	Appendix 2
Section 5(a)(7) Summary of Particularly Significant Reports	15-34
Section 5(a)(8) Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 3
Section 5(a)(9) Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 3
Section 5(a)(10) Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	None
Section 5(a)(11) Significant Revised Management Decisions	None
Section 5(a)(12) Significant Management Decisions With Which the Inspector General Disagreed	None
Section 5(a)(13) Information under Federal Financial Management Improvement Act of 1996	None



Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
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CONTRACT

2005-044C 10/03/05	Cornetech, Inc.	\$5,933	\$5,933	
2005-046C 10/04/05	Voith Siemens Hydro - Review of Proposed Indirect Cost Recovery Rates			\$99,800
2005-050C 11/04/05	Pinkerton Government Services - Review of Provisional Billings	109,444	109,444	
2005-017C 11/09/05	Ecolochem, Inc. - Contract Compliance	328,845	322,579	
2006-004C 12/02/05	URS Corporation			600,000
2005-043C 12/05/05	WachTechnical Services - Subcontract with Stone & Webster Construction, Inc.	295,067	9,400	
2005-045C 01/18/06	Review of EPC Jobs, Inc. - Subcontract with Bechtel Power Corporation	34,958	20,243	

FINANCIAL

2005-057F 11/01/05	Review of Asset Retirement Obligation			
2005-041F 11/18/05	Audit of PwC Audit of TVA's FY 2005 Financial Statements			
2005-061F 11/30/05	Review of Intragovernmental Activity and Balances			
2006-006F 12/01/05	TVA IG Agreed-Upon Procedures for Intragovernmental Activity and Balances - FY 2005			
2005-059F 12/06/05	Summary of Sarbanes-Oxley 404 Process and Controls Documentation Review (SOX 404 Design Effectiveness Reviews)			
2005-063F 10/31/05	Agreed-Upon Procedures on TVA FY 2005 Performance Measures			



Appendix 2

Audit Reports Issued

AUDIT REPORT NUMBER AND DATE	TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
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FINANCIAL (cont.)

2005-034F 01/30/06	Internal Controls over Time Reporting			
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2006-013F 02/13/06	Review of TVA's FY 2006 First Quarter Financial Information			
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INFORMATION TECHNOLOGY

2005-021T 10/07/05	Passport Application, Access, and General Controls			
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2005-055T 01/24/06	Integrated Contractor System Logical Access and General Controls			
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2005-060T 01/24/06	Fuelworx Logical Access and General Controls			
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2005-039T 01/30/06	Eworkplace Application, Access, and General Controls			
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2006-003T 01/31/06	IT Security Controls Over Procurement Contracts			
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2006-007T 03/30/06	HED Fleet Logical Access and General Controls			
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PERFORMANCE

2005-052F 02/23/06	Follow-up Review of TVA's Hospitality Program			
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TOTAL	22	\$774,247	\$467,599	\$699,800
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Audit Reports Issued With Questioned Costs

	NUMBER	QUESTIONED COSTS	
		TOTAL	UNSUPPORTED
A. For which no management decision has been made by the commencement of the reporting period	4	\$1,298,422	\$487,659
B. Which were issued during the reporting period	5	\$774,247	\$467,599
Subtotals of A and B	9	\$2,072,669	\$955,258
C. For which a management decision was made during the reporting period	9*	\$2,072,669	\$955,258
(i) Dollar value of disallowed costs	9	\$1,122,034	\$624,155
(ii) Dollar value of costs not disallowed	5	\$950,635	\$331,103
D. For which no management decision has been made by the end of the reporting period	0	\$0	\$0
E. For which no management decision was made within six months of issuance	0	\$0	\$0

* The total number of reports differs from the sum of C(i) and C(ii) when the same reports contain both costs disallowed and not disallowed by management.



Appendix 3

Audit Reports Issued With Recommendations for Better Use of Funds

	NUMBER	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period	1	\$3,923,500
B. Which were issued during the reporting period	2	\$699,800
Subtotals of A and B	3	\$4,623,300
C. For which a management decision was made during the reporting period	3*	\$4,623,300
(i) Dollar value of costs agreed to by management	2	\$633,081
(ii) Dollar value of costs not agreed to by management	2	\$3,990,219
D. For which no management decision has been made by the end of the reporting period	0	\$0
E. For which no management decision was made within six months of issuance	0	\$0

* The total number of reports differs from the sum of C(i) and C(ii) when the same reports contain both costs disallowed and not disallowed by management.



Audit Reports With Corrective Actions Pending

Final corrective actions on recommendations in the following audits have not yet been fully implemented; however, all are being implemented in accordance with currently established milestones.

AUDIT REPORT NUMBER AND DATE	DESCRIPTION
2001-074T 01/07/02	Application Review of Pegasys This report contained recommendations regarding facility access control. TVA management approved funding for a new system on February 28, 2006. Implementation is scheduled to begin August 2006 and be complete by September 30, 2008.
2003-004C 03/30/04	A&G Tree Service, Inc. A Contracting Officer's decision was issued in March 2005 that concurred with the audit finding and directed A&G to reimburse TVA for overpayments of \$638,542 under a closed contract. During May 2005, TVA stopped A&G from performing work under a subsequent contract and recovered part of TVA's damages by withholding payment on invoices under the subsequent contract totaling \$88,362. A&G has sued TVA under the subsequent contract for the withheld payments and has filed suit challenging the Contracting Officer's decision. The time frame for resolution of these lawsuits is indeterminate.
2003-024F 11/18/03	Review of TVA's Accounts Receivable and the Allowance for Doubtful Accounts This report contained recommendations to (1) develop, document, and implement guidelines for estimating the allowance for doubtful accounts; (2) ensure reconciliation of the general ledger and subsidiary accounts include documentation of corrections and adjustments made during power and nonpower reconciliations and management review and approval of all nonpower adjusting journal entries; (3) make modifications to the write-off process to ensure invoices are written off in a timely manner; (4) develop and implement procedures to track written off accounts for future collection efforts or business decisions; (5) ensure accounts are written off in accordance with policy; and (6) review and update Accounting Procedure 25 to clarify the criteria for referring past due customers to the General Counsel's office. TVA management agreed to implement our recommendations and has transitioned the responsibilities to a new group. Processes and procedures will be evaluated and updated by June 30, 2006, and a new system is planned.
2003-040T 03/30/04	Nuclear Plant IT Security This report included recommendations to strengthen logical and physical controls at a nuclear generation facility. TVA management is implementing planned remediation actions that are expected to be completed by November 30, 2006.
2003-056T 03/18/04	Pre-Implementation Review of TVA's New Fuelworx Application This report included a recommendation to strengthen user access controls. The recommendation will be addressed as part of a TVA-wide effort that is expected to be completed in December 2006.



Appendix 4

Audit Reports With Corrective Actions Pending

AUDIT REPORT
NUMBER
AND DATE

DESCRIPTION

2003-067P 02/02/04	TVA's Compliance with the National Energy Conservation Policy Act This report included a recommendation to continue to evaluate opportunities to reduce energy consumption, including promoting sustainable building design when appropriate. Actions planned by TVA management to reduce energy consumption include implementation of the Internal Energy Efficiency Process, the Internal Energy Management Program, and the Resource Efficient Building Design Process. Management expects the process implementations to be completed by May 2006.
2004-016T-01 12/07/04	Payroll System Controls This report included recommendations to strengthen controls over the payroll process and system. TVA management is implementing planned remediation actions which are expected to be complete by April 15, 2006.
2004-059T 11/24/04	Pre-Implementation Review of Security of New Servers for IBS, Fixed Assets, and BOSS Applications This report included recommendations that TVA management take action to improve the security of the servers. TVA management is expected to complete planned remediation actions by September 30, 2006.
2004-060T 11/19/04	IT Security Review of New Servers for HR and PR Applications This report included recommendations that TVA management take action to improve the security of the servers. TVA management is expected to complete planned remediation actions by May 15, 2006.
2005-001T 11/19/04	Vulnerability Assessment on Solaris Standard Image This report included recommendations to strengthen controls within the standard solaris image. TVA management is expected to complete remediation by June 30, 2006.
2005-009T 06/30/05	Review of TVA's Information Factory Application, Access, and General Controls This report included recommendations to strengthen controls for the system. TVA management is implementing planned remediation actions which are expected to be complete by September 30, 2006.
2005-012T 06/30/05	Integrated Business System Application, Access, and General Controls This report included recommendations to strengthen controls over the general ledger system. Remediation has been completed on three recommendations. TVA management is implementing planned remediation actions for the remaining items which are expected to be complete by April 15, 2006.
2005-022T 08/30/05	Security, Test, and Evaluation of the IT Security Data System This report included recommendations to strengthen controls over the system. TVA management is implementing planned remediation actions which are expected to be complete by April 30, 2006.



Investigative Referrals and Prosecutive Results*

Referrals

Subjects Referred to U.S. Attorneys	5
Subjects Referred to State/Local Authorities	0

Results

Subjects Indicted	3
Subjects Convicted	3
Referrals Declined	8

* These numbers include task force activities and joint investigations with other agencies.



Highlights

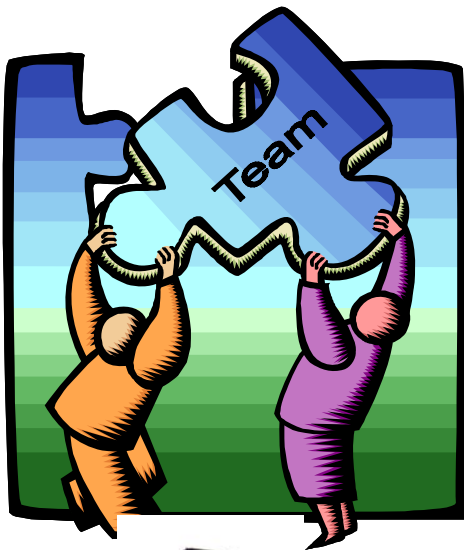
	MAR 31, 2006	SEPT 30, 2005	MAR 31, 2005	SEPT 30, 2004	MAR 31, 2004
AUDITS					
AUDITS IN PROGRESS					
Carried Forward	24	30	28	29	37
Started	22	41	35	38	36
Canceled	3	11	2	5	5
Completed	22	29	31	34	39
In Progress at End of Reporting Period	21	24*	30	28	29
AUDIT RESULTS (Thousands)					
Questioned Costs	\$774	\$6,422	\$8,859	\$1,763	\$14,127
Disallowed by TVA	1,122	4,969	7,586	2,948	10,453
Recovered by TVA	1,641	5,016**	2,312	1,113	697
Funds to Be Put to Better Use	\$700	\$5,634	\$24,306	\$1,471	\$11,904
Agreed to by TVA	633	1,251	20,181	7,021	5,800
Realized by TVA	740	6,002	7,886	7,196	11,708
OTHER AUDIT-RELATED PROJECTS					
Completed	11	10	3	8	30
Cost Savings Identified/Realized (Thousands)	\$36	\$0	\$0	\$0	0
INVESTIGATIONS ***					
INVESTIGATION CASELOAD					
Opened	80	84	84	118	162
Closed	71	84	103	163	76
In Progress at End of Reporting Period	148	157	157	176	221
INVESTIGATIVE RESULTS (Thousands)					
Recoveries	\$2,966.5	\$1,880.3	\$216.3	\$460	\$3,412
Savings	1,625.4	36	1,581.5	447.7	863
Fines/Penalties	6.2	6.7	.4	451.6	10
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	17	10	11	14	8
Actions Taken (# of Subjects)	9	13	16	30	75
Counseling/Management Techniques Employed (# of Cases)	14	16	12	16	13
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referred	5	8	12	25	17
Indicted	3	4	3	9	3
Convicted	3	5	4	3	3
INSPECTIONS					
Completed	14	13	14	8	
Cost Savings Identified/Realized (Thousands)	\$0	\$118	\$0	\$226	

* Adjusted from previous semiannual report.

** Includes excess funds recovered by TVA of \$33,219.

*** These numbers include task force activities and joint investigations with other agencies.

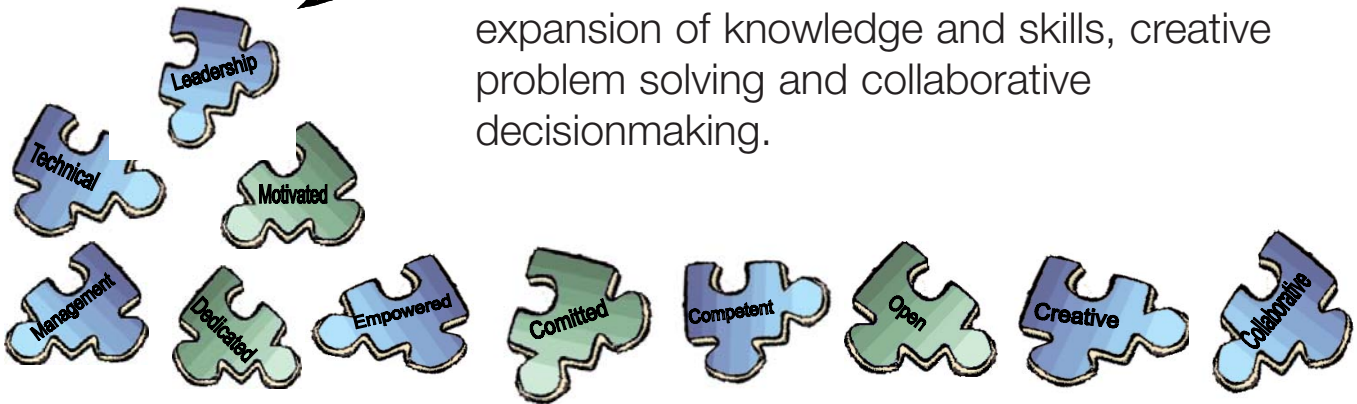
OIG LEADERSHIP PHILOSOPHY



The TVA OIG strives to be a high performing organization made up of dedicated individuals who are empowered, motivated, competent, and committed to producing high quality work that improves TVA and life in the Valley.

Each of us has important leadership, management, team, and technical roles.

We value integrity, people, open communication, expansion of knowledge and skills, creative problem solving and collaborative decisionmaking.





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